

**Commonwealth of Kentucky  
Department of Workers' Claims  
Office of the Commissioner**

**"BULLETIN"**

**RE:   Actuarial Peer Review of Self-Insurance  
      Workers' Compensation Groups**

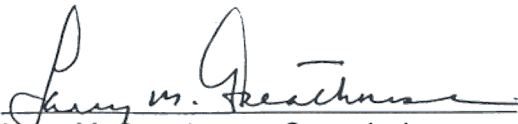
***The Department of Workers' Claims initiates an independent peer review of the self-insured workers' compensation groups' actuarial reports in conjunction with the required examinations.*** KRS 342.347(1) requires the examination of self-insured groups not less frequently than once every four (4) years. In partnership with the Department of Insurance Financial Standards Division, group examinations have been conducted since 1997, but have not included a review of the methods and practices performed by the actuary in the determination of reserves for claims and expenses. KRS 342.347(2) states that "the reserve study shall include documentation sufficient for another actuary practicing in the same field to evaluate the work."

***Independent verification of loss reserve adequacy is an essential component in a group self-insurance examination protecting the member employers and their employees alike in the event a self-insured group can no longer meet its financial obligations.*** The reserves for losses and loss adjustment expenses on the audited financial statements of the self-insured groups represent a significant part of the liabilities, thus having considerable impact on the determination of solvency. An independent actuarial review is an evaluation consistent with the principles utilized during a financial examination.

***Expenses shall be borne by the group funds.*** KRS 342.347(3) states: "The expense of the examination shall be borne by the entity examined." The Department, while performing its regulatory obligation, has made an effort to keep examination costs to a minimum since the inception of the examinations in 1997. Cognizant that each group's first examination would be more comprehensive and thus more expensive, reviews of the market conduct and actuarial studies have been deferred. Since the costs of the second examinations thus far have decreased, it is anticipated that added expense for peer reviews will be mitigated by the reduced cost in other areas of the examination.

***It is the goal of the Department of Workers' Claims to provide to the Board of Trustees of each self-insured group a comprehensive evaluation that will address financial solvency.*** Furthermore, it is the objective that a thorough examination, including peer review of actuarial reports, will not only provide appropriate regulatory oversight, but will ultimately strengthen the position of the self-insured group in the workers' compensation market.

This 8<sup>th</sup> day of November, 2002.

  
Larry M. Greathouse, Commissioner